

Message Text

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FM AMEMBASSY KATHMANDU
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C O N F I D E N T I A L SECTION 1 OF 2 KATHMANDU 2262

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C O R R E C T E D C O P Y (TEXT PARA 3)

FOR NEA/INS DENNIS KUX ONLY FROM CHARGE

E.O. 11652 GDS
TAGS: EAID, NP
SUBJ: AID FY 79

1. THE EMBASSY HAS HAD DETAILED DISCUSSIONS WITH AID ON ITS FY 79 ABS. IT PROJECTS FUNDING LEVEL FOR FY 79 OF \$37.5 MILLION AND TENTATIVE PROJECTIONS RANGING FROM \$24 MILLION TO \$37 MILLION FOR SUBSEQUENT FYS 80-83. IT ALSO PROJECTS AN INCREASE IN DIRECT HIRE AMERICAN PERSONNEL FROM CURRENT CEILING OF 19 (W OF WHICH ARE CURRENTLY UNFILPED AND SUBJECT TO MODE APPROVAL) TO 23 BY ADDING ONE IN FY 77, 2 IN FY 70, AND ONE MORE IN FY 79 AND AN INCREASE OF 41 IN DIRECT HIRE LOCAL STAFF, 35 OF WHOM ARE PROPOSED TO BE ADDED IN FY 77 AND SIX MORE IN FY 78. AN INCREASE IN AMERICAN CONTRACT PERSONNEL IS ALSO PROJECTED FROM CURRENT 17 TO 25 IN FY 78.

2. WE HAVE EXPRESSED RESERVATIONS ON SEVERAL ASPECTS OF THIS PROJECTED EXPANSION OF PROGRAMS AND PERSONNEL. WE HAVE, FOR EXAMPLE GIVEN CONSIDERABLE ATTENTION TO THE PROPOSAL FOR RURAL AREA DEVELOPMENT IN THE RAPTI ZONE (FOR WHICH \$11.3 MILLION IS PROJECTED FOR FY 79), HAVE DISCUSSED
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IT EXTENSIVELY WITH AID, AND CONTINUE TO HAVE RESERVATIONS ABOUT IT. WE BELIEVE THERE ARE LIMITATIONS ON LOCAL CAPACITY TO SUSTAIN A COMPREHENSIVE AREA DEVELOPMENT EFFORT. (FINANCE MINISTER THAPA TOLD ME A FEW DAYS AGO HE BELIEVED ANY RURAL DEVELOPMENT ACTIVITY IN NEPAL SHOULD BE "MODEST AND SELF-SUSTAINING" AND SHOULD NOT RAISE EXPECTATIONS AMONG THE PEOPLE THAT THE GOV COULD NOT FULFILL.)

IN ADDITION, THERE MAY BE PROBLEMS FOR HMG ARISING FROM A HEAVY CONCENTRATION OF EXPENDITURES ON A LIMITED AREA, AND EXPERIENCE GAINED IN ONE AREA MAY NOT BE EASILY DULICATED OR SERVE AS AN EXAMPLE FOR OTHER AREAS IN A COUNTRY AS DIVERSE AS NEPAL. FURTHERMORE, WE SEE SOME POTENTIAL DANGERS IN THE INDIFICATION OF ONE AREA AS AN "AMERICAN AREA". WE SERIOUSLY QUESTION ALSO WHETHER DEVELOPMENT ACTIVITY IN THE TERA/INNER TERA OF RAPTI ZONE, WHICH WOULD PROBABLY BE THE EASIEST STARTING PGNT FOR DEVELOPMENT ACTIVITY IN THE AREA, WOULD AUTOMATICALLY HAVE EFFECTS IN THE MOUNTAINS, WHERE THE HEART OF THE DEVELOPMENT PROBLEM LIES. FROM OUR DISCUSSIONS WITH THEM, THE AID STRATEGY SURVEY TEAM APPEARED TO SHARE SEVERAL OF THESE RESERVATIONS. FOR THESE REASONS, WE URGE A VERY CLOSE EXAMINATION OF THE PROPSAL. IF, AFTER FLL CONSIDERATION IN WASHINGTON, IT IS DETERMINED THAT THERE IS MERIT IN RUAL AREA DEVELOPMENT PROJECT WE BELEIVE WE SHOULD GO INTO IT VERY SLOWLY, BEGINNING WITH A SMALL PILOT PROJECT AND THEREBY AVOIDING THE RELATIVELY LARGE INITIAL COMMITMENT OF MORE THAN \$11 MILLION PROPOSED IN FY 79 ABS.

3. HOWEVER, OUR MAJOR RESERVATONS ARISE FROM POLITICAL AND POLICY CONSIDERATIONS AND PERTAIN TO BOTH THE DOLLAR SIZE OF THE PROJECTED FY 79 PROGRAM AND THE PROJECTED ADDITIONAL PERSONNEL, BOTH NEPALESE AND AMERICAN. WE FULLY RECOGNIZE THE HUMANITARIAN AND AID POLICY INTERESTS IN ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES, AND THERE IS NO QUESTION THAT NEPAL IS AMONG THE MOST NEEDY IN THAT CATEGORY. AT THE SAME TIME, HOWEVER, WE MUST BE COGNIZANT

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OF THE COUNTRY'S LIMITED ABSORPTIVE CAPACITY AND FULLY AWARE OF THE POLITICAL REALITY THAT OUR AID PROGRAM IS SEEN IN NEPAL TO BE A DIRECT REFLECTION OF OUR COMMITMENT TO THE COUNTRY'S ABILITY TO MAINTAIN ITS INDEPENDENCE. AS OUR MOST RECENT POLICY AND RESOURCES ASSESSMENT (KATHMANDU 1218) NOTES, OUR INTERESTS IN NEPAL ARE CLEARLY LIMITED. HOWEVER, THE PROPOSED LEVEL OF \$37.5 MILLION WOULD PROBABLY MAKE US THE LARGEST BILATERAL DONOR IN FY 79. ASSUMING THAT THE CHINESE SURKHET-POKHARA ROAD PROJECT CONTINUES TO FLOUNDER, AND WITH DIRECT INDIAN AID CONTRIBUTIONS LIKELY TO DIMINISH IN COMING YEARS, A US AID LEVEL OF THE MAGNITUDE PROJCTED FOR FY 79 AND SUBSEQUENT YEARS WOULD PUT US A IN THE FOREFRONT AMONG BILATERAL DONORS AND GIVE A HIGH PROFILE TO US COMMITMENT TO NEPAL.

4. OVER THE PAST THREE YEARS HMG HAS EXPRESSED INCREASING CONCERN OVER THE HIGH VISIBILTY AND LFESTYLE OF FOREIGN AID TECHNICIANS. THIS HAS BEEN THE SUBJECT OF ARTICLES IN THE PRESS, WHICH ABRE ACCOMPANIED BY HMG

EFFORTS TO CURTAIL SHARPLY BOTH THE NUMBERS OF FOREIGN AID TECHNICIANS AS WELL AS THE PRIVILEGES GRANTED TO THEM. PARTLY IN RESPONSE TO THESE HMG SENSITIVITIES, AS WELL AS TO IMPROVE COLLABORATION WITH HMG, AID INTEGRATED CONTRACTORS IMPLEMENTING AID-FUNDED PROJECTS MORE CLOSELY INTO HMG PROGRAMS, REQUIRING THEM, INTER ALIA, TO WORK AT HMG OFFICES AND ARRANGE FOR THEIR OWN SUPPORT SERVICES. PARTLY AS A CONSEQUENCE OF THIS REDUCED AID SUPPORT ROLE, THE AID MISSION WAS ABLE TO MAKE A SUBSTANTIAL REDUCTION IN LOCAL STAFF, REDUCING IT FROM 122 DIRECT HIRE AND 208 CONTRACT EMPLOYEES IN 1974 TO 72 DIRECT HIRE AND 15PSC AT PRESENT. AMERICAN DIRECT HIRE STAFF WAS ALSO REDUCED FROM 34 POSITIONS IN MID-1970S TO THE 19 AUTHORIZED AT PRESENT.

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5. THE EMBASSY BELIEVED THAT THE REASONS FOR THESE DECISIONS WERE SOUND AND STRONGLY SUPPORTED THEM. WE CONSIDER THAT THE POLITICAL FACTORS ARGUING FOR A REDUCED STAFF REMAIN VALID. IN ADDITION, WE CONTINUE TO BELIEVE THAT THE MOST PRESSING OF NEPAL'S DEVELOPMENT PROBLEMS CAN BE EFFECTIVELY ADDRESSED BY A LEAN STAFF OF PRACTICAL FIELD MANAGERS AS HAS BEEN THE CASE IN THE LAST FEW YEARS.

6. IN THIS CONNECTION SEVERAL OF THE SPECIFIC RECOMMENDED POSITION INCREASES SEEM QUESTIONABLE. FIFTEEN OF THE NEW NEPALESE POSITIONS REQUESTED ARE MOTOR POLL MECHANICS. OF THESE, ONLY FOUR WERE EVER DIRECT HIRE AID EMPLOYEES. IF, AS AID ARGUES, THERE IS A PROBLEM UNDER THE REGULATIONS CONCERNING THEIR CONTINUANCE UNDER A PERSONAL SERVICES CONTRACT, THEIR CONTINUED AVAILABILITY COULD SEEMINGLY BE ARRANGED FOR UNDER A NON-PERSONAL SERVICES CONTRACT, IN THE SAME WAY

THE EMBASSY ARRANGES FOR MUCH OF ITS SUPPORT SERVICES. IN ANY CASE, OUR UNDERSTANDING IS THAT THIS A LEGAL ISSUE WHICH STILL HAS SEVERAL YEARS TO RUN BEFORE THE FIVE-YEAR LIMIT IS REACHED, AND WE THEREFORE QUESTION THE NEED TO ADD THESE PEOPLE AS DIRECT -HIRE EMPLOYEES IN FY 77. THE THREE REQUESTED POSITIONS FOR RURAL FIELD TREK SUPPORT ALSO APPEAR QUESTIONABLE IN VIEW OF THE AVAILABILITY OF EXCELLENT LOCAL COMMERCIAL FIELD TREK PLANNING AND SUPPORT FACILITIES, WHICH HAVE FURNISHED ENTIRELY SATISFACTORY SERVICE TO THE

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EMBASSY. THE REQUEST FOR THREE POSITIONS FOR MAINTENANCE OF CONTRACTOR VEHICLES REPRESENTS A SERIOUS STEP BACKWARDS FROM AID'S PRIOR DECISION, WHICH WE BELIEVE WAS A CORRECT ONE, TO CUT CONTRACTORS FREE OF AID SUPPORT SERVICES, AND WE SEE NO REASON TO REVERSE IT. WHILE KATHMANDU VEHICLE MAINTENANCE FACILITIES ARE NOT UP TO THE U.S. STANDARDS, AMERICANS WITH THE EMBASSY PATRONIZE THEM AND MANAGE TO KEEP THEIR VEHICLES OPERATIONAL. WE ALSO QUESTION THE REQUESTED DIRECT HIRE OF 5 NEPALESE FOR "PROTECTIVE ANALYSIS OF U.S. FINANCIAL INPUTS." IF SUCH A SERVICE IS NEEDED, WE BELIEVE IT SHOULD BE PROVIDED BY AN AMERICAN WHO WOULD BE IN A BETTER POSITION TO GUARD AGAINST POSSIBLE REPETITION OF FINANCIAL AND OTHER IRREGULARITIES. WITH THE SAME CONSIDERATION IN MIND, WE QUESTION THE REQUESTED ADDITION OF A NEW NEPALESE PROFESSIONAL POSITION FOR GENERAL SERVICES UNLESS HE WERE WORKING UNDER CLOSE AMERICAN SUPERVISION.

7. THERE ARE OTHER ASPECTS OF THE PROJECTED ACTIVITIES WHICH WE HAVE ALSO QUESTIONED. FOR EXAMPLE, \$2,100,000 IS REQUESTED FOR A RURAL HEALTH DEVELOPMENT PROJECT IN FY 79. THE PURPOSE OF THIS PROJECT IS TO CONSTRUCT 100-150 HOUSING UNITS FOR RURAL HEALTH WORKERS. IT HAS SEEMED TO US LOGICAL TO ASK WHY THE VILLAGES THEMSELVES CANNOT CONSTRUCT SIMPLE HOUSES IF PROMISED A HEALTH WORKER; IF THEY WILL NOT, HOW REAL IS THE FELT NEED? THE \$4-5 MILLION PROJECTED FOR A NEW FAMILY PLANNING PROGRAM WOULD BE DEVOTED ENTIRELY TO RESEARCH PROJECTS, ANY TANGIBLE RESULTS OF WHICH WOULD TAKE YEARS TO REACH THOSE WHOM THE AID PROGRAM IS COMMITTED TO ASSIST, I.E. THE RURAL POOR. WE ALSO HAVE EXPRESSED SOME SKEPTICISM OVER THE HIGH LOAD OF ADMINISTRATIVE AND CONSULTANCY COSTS BUILT INTO MANY OF THE PROJECTS. WHILE WE RECOGNIZE THAT THESE COSTS WILL NECESSARILY BE HIGH IN A COUNTRY WITH SUCH COMMUNICATIONS AND TRANSPORTATION PROBLEMS, ITEMS SUCH AS AIRCRAFT RENTALS AND SUPPLY OF 4-WHEEL VEHICLES SHOULD BE KEPT TO ABSOLUTE MINIMUM LEVELS TO REMAIN CONSONANT WITH OUR POLITICAL GOALS OF MAINTAINING A MODEST AID PROFILE. THE EDUCATION

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SKILLS TRAINING PROGRAM PROJECT HAS DEVELOPED INTO A SERIOUS COST OVERRUN FROM THE AMOUNT AID INITIALLY BUDGETED AND HAS RESULTED IN A TOTAL AND RATHER STAGGERING BUDGET OF \$966,000 TO PROVIDE SOME 21 NEPALESE WITH MASTERS'S DEGREES FROM THE UNIVERSITY OF CONNECTICUT.

8. WE IN THE EMBASSY DO NOT HAVE THE TECHNICAL EXPERTISE TO COMMENT IN DETAIL ON EVERY PROJECT NOR ON EVERY PROPOSED PERSONNEL ADDITION. THE PURPOSE OF THE MESSAGE IS TO EMPHASIZE THE POLITICAL CONTEXT AND U.S. POLICY OBJECTIVES IN NEPAL AGAINST WITH THE FY 79 ABS MUST BE CONSIDERED. WE DO NOT BELIEVE THE U.S. NEED OR SHOULD BE IN THE FOREFRONT OF BILATERAL DONORS, THE MORE SO GIVEN OUR LARGE MULTILATERAL DONORS, THE MORE SO GIVEN OUR LARGE MULTILATERAL CONTRIBUTIONS TO AGENCIES ALSO WORKING FOR NEPAL'S DEVELOPMENT. WE MUST ALSO BE SENSITIVE TO THE FACT THAT A HIGHER PROFILE COULD CREATE FALSE EXPECTATIONS IN NEPAL OVER THE REAL LEVEL OF OUR COMMITMENT TO THE COUNTRY. WHILE SOME INCREASE FROM OUR CURRENT LEVELS MIGHT BE JUSTIFIED IN TERMS OF INFLATION, AN INCREASE AS SUBSTANTIAL AS THAT PROJECTED, AND THE ATTENDANT REQUESTED INCREASE IN PERSONNEL, DO NOT REFLECT THE LIMITED NATURE OF OUR INTERESTS IN AND COMMITMENT TO NEPAL.

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